

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendraye
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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Application of Northern
States Power Company d/b/a Xcel Energy for
Authority to Increase Rates for Electric Service
in Minnesota

ISSUE DATE: December 30, 2005

DOCKET NO. E-002/GR-05-1428

ORDER SETTING INTERIM RATES

PROCEDURAL HISTORY

On November 2, 2005, Xcel filed its electric general rate case requesting a final rate increase of \$168,047,000, or approximately 8.05 percent.¹ As part of that filing, Xcel requested an interim rate increase of \$140,735,000, or approximately 6.9 percent over existing rates, effective on January 1, 2006.

The Commission met on December 15, 2005 to consider this matter.

FINDINGS AND CONCLUSIONS

I. SUMMARY OF COMMISSION ACTION

The Commission approves an interim rate increase of \$147,318,000, effective January 1, 2006, based on the findings and recalculations made in this Order.

The Company will be required to file with the Commission and the Department interim tariff sheets and supporting documentation reflecting the Commission's decisions regarding interim rates. This filing should be made by the effective date for interim rates.

¹ In a separate Order issued contemporaneously with the current Order, the Commission accepted Xcel's November 2, 2005 filing as substantially complete as of the date it was filed and suspended the Company's request for a final rate increase, pending its investigation into the merits of the Company's request. In an additional Order, the Commission referred the matter to the Office of Administrative Hearings for a contested case proceeding and gave Notice regarding the preliminary hearing to be held in that proceeding.

Xcel will also be required to inform customers of the interim rates with a Commission-approved Notice and keep such records of sale and collections under interim rates as would be necessary to compute a potential refund. Any refund should be made within 120 days of the effective date of the Commission's final Order in a manner approved by the Commission.

II. THE INTERIM RATE STATUTE

Interim rates are established in expedited proceedings conducted *ex parte*. Except under exigent circumstances, the following principles control:

Interim rates are based on the proposed test year cost of capital, the proposed test year rate base, and proposed test year expenses. They are calculated using existing rate design and the rate of return on common equity authorized in the company's last general rate case. Only rate base and expense items similar in nature and kind to those allowed under the company's last general rate case Order can be included in interim rate calculations.

Interim rates are collected subject to refund. If the utility collects more in interim rates than it would have collected in final rates, it refunds the difference to ratepayers. If it collects less, it can recover the difference, but only for the time period between the final determination in the rate case and the date on which final rates go into effect. Minn. Stat. § 216B.16, subd. 3.

III. XCEL'S MOST RECENT RATE PROCEEDING

On November 2, 1992, Northern States Power Company (now doing business as Xcel Energy) filed a general rate case. The Company proposed to increase its rates for electric service by 9.0 percent or \$119,138,000 annually. The matter was assigned to Docket No. E-002/GR-92-1185.

In its January 14, 1994 ORDER AFTER RECONSIDERATION, the Commission found that Xcel was entitled to increase its gross Minnesota jurisdictional operating revenues by \$72,169,000, in order to produce total gross annual operating revenues of \$1,594,662,000. The Commission authorized Xcel to earn a 11.47 percent return on equity capital. The Commission authorized a weighted average cost of capital of 9.31 percent.

IV. REVENUE DEFICIENCY

A "revenue deficiency" refers to the extent to which a utility's costs, including the need to pay a fair return to investors, exceed its revenues.

A. Xcel's Interim Rate Increase Proposal (Interim Rate Deficiency)

Until the rate case is resolved, Xcel proposed an interim rate increase of \$140,735,000, or approximately 6.9 percent over existing rates, effective January 1, 2006, based on the following revenue summary.

Rate of Return (Capital Cost)	9.04%
x Rate Base	\$3,237,695,000
= Required Operating Income	\$292,688,000
- Net Operating Income	\$210,174,000
= Income Deficiency	\$82,514,000
x Revenue Conversion Factor	1.70561
= Revenue Deficiency (requested interim rate increase)	\$140,735,000

The Company requested a return on equity (ROE) of 11.00 percent which is less than the 11.47 percent rate of return on common equity that was allowed in NSP 1992 electric rate case.

The following table illustrates the Company's proposed test year cost of capital:

	Ratio	Cost Rate	Weighted Cost of Capital
Long Term Debt	45.57%	7.08%	3.23%
Short Term Debt	2.76%	4.71%	0.13%
Common Equity	51.67%	11.00%	5.68%
Totals	100.00%		9.04%

The Company proposed to use the same figures for the capital structure and cost rates for interim rates.

B. Commission Analysis and Action

Minn. Stat. § 216B.16, Subd. 3. (b) provides guidance in determining the level at which to set interim rates:

(b) Unless the commission finds that **exigent circumstances exist**, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; (2) rate base or expense items the **same in nature and kind** as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and (3) no change in the existing rate design. In the case of a utility which has not been subject to a prior commission determination, the commission shall base the interim rate schedule on its most recent determination concerning a similar utility. (Emphasis added.)

1. Rate of Return on Common Equity

In calculating its proposed interim rates, Xcel has assumed a rate of return on common equity (ROE) of 11.00 percent, an amount different from (in this case, lower than) the amount that the Commission approved in Xcel's last rate case, 11.47 percent. Because the proposed ROE is different from the ROE approved in the previous rate case, the Commission may approve its use only if it finds that exigent circumstances exist.²

The Commission finds that exigent circumstances exist to approve the Company's proposed ROE rate for interim rates (11.00 percent) because it is lower than the previously approved ROE and is the same figure that the Company has requested for final rates. Because it is the same figure that the Company has requested for final rates, that figure is unlikely to increase through the rate proceeding. Requiring Xcel to use the higher previously approved ROE (11.47 percent) would make the size of the interim rate increase larger than necessary and potentially necessitate a refund of the overage at the end of this case.

2. Allocation Methodologies

Allocations are necessary to assign costs to the electric utility and to the Minnesota jurisdiction. Historically, modifications to allocation methods have been limited by the Commission for interim rates under the same in nature and kind provision of the interim rate statute. Allocations are frequently subjected to close scrutiny by the parties in the final rate proceeding.

As the Commission noted in Xcel's recent rate case for its gas utility,³ there has been substantial organizational change since Xcel's most recent electric rate case. Since the 1992 rate case, NSP merged with NCE to become Xcel. There has been a reorganization of electric operations. Xcel now has a service company in place which provides many of the common services to the electric utility.

Due to these significant organizational changes, it is not possible to reconstruct what allocations would be under the prior methodologies. Consequently, the Commission finds that these exigent circumstances warrant accepting the Company's proposed allocation methodologies for interim rates.

3. MISO Charges - Schedule 16 and 17 Costs

Xcel included Schedule 16 and 17 costs (approximately \$9 million for the system for the 2006 test year) for interim rates. At the time the filing was made, these costs were being allowed through the fuel clause under the Commission's April 7, 2005 interim Order in Docket No. E-002/M-04-1970 et al. (the MISO Day 2 Cost Docket).

² Minn. Stat. § 216B.16, Subd. 3. (b)(1).

³ *In the Matter of an Application by Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Natural Gas Service in the State of Minnesota*, Docket No. G-002/GR-04-1511, ORDER SETTING INTERIM RATES (November 16, 2004) at page 3.

On December 21, 2005, however, the Commission issued its ORDER ESTABLISHING SECOND INTERIM ACCOUNTING FOR MISO DAY 2 COSTS, PROVIDING FOR REFUNDS, AND INITIATING INVESTIGATION in the MISO Day 2 Cost Docket. With respect to Schedule 16 and Schedule 17 costs, the Commission stated the following at page 17:

The Commission concludes that the cost of Day 2 administration [Schedule 16 and 17 costs]. . .is too remote to qualify as an energy-related cost warranting recovery through the fuel clause. . . .The petitioners [including Xcel] may seek recovery of those administrative . . . costs through the rate case process. . .

Accordingly, it is appropriate to allow Xcel to reclassify the test year Schedule 16 and 17 costs as other, non-fuel, costs of the test year for interim rate purposes to be consistent with the Commission's December 21, 2005 Order.

Interim rates are governed by the requirement that the only costs that may be used in calculating the interim rate schedule are those of the same "nature and kind" as those allowed in the utility's most recent rate proceeding. In this case, since Schedule 16 and 17 costs did not exist at the time of Xcel's 1992 electric rate case, they therefore do not comply with the "same in nature and kind" provision of the interim rate statute⁴ and hence may not be used unless exigent circumstances exist.⁵

The Commission finds, however, that exigent circumstances exist to allow the inclusion of the Schedule 16 and 17 costs as other test year costs for interim rates (instead of in the fuel adjustment) because excluding the Schedule 16 and 17 costs from the calculation of interim base rates would potentially leave the Company unable to recover the costs until such time as final rates are implemented following the main rate case process.

Based on a finding of exigent circumstances, therefore, the Commission will allow Xcel to include MISO Schedule 16 and 17 costs as test year costs for purposes of calculating interim rates and will direct the Company to recalculate the interim rate increase accordingly.

The impact that this treatment of MISO Schedule 16 and 17 costs will have on the interim rates approved in this Order is explained as follows:

For interim rate purposes, Xcel proposed to increase the energy charge by \$0.007060 per kWh to reflect the increase in base fuel costs from \$0.01354 per kWh to \$0.02060 per kWh. In addition, Xcel proposed to apply a surcharge of 6.90 percent to several bill components to recover the proposed increase of \$140,735,000, resulting in a revenue requirement of \$2,229,876,000 for interim rates.

The Company included \$6,583,000 of MISO Schedule 16 and 17 costs as fuel costs for interim rates. The Commission determined that these costs should be removed from fuel costs for interim rates and reclassified as "other test year" costs. While this reclassification does not change the overall revenue requirement for interim rates, the reclassification does impact the proposed rate adjustments. The

⁴ Minn. Stat. § 216B.16, Subd. 3(b)(2).

⁵ Minn. Stat. § 216B.16, Subd. 3(b).

increase in the energy charge of \$0.007060 per kWh is reduced to \$0.006850 per kWh to reflect new base fuel costs of \$0.02039 per kWh. The proposed surcharge is increased to 7.25 percent to recover the non-fuel increase of \$147,318,000 (now including the \$6,583,000 of MISO Schedule 16 and 17 costs), resulting in a revenue requirement of \$2,229,876,000 for interim rates.

V. RATE DESIGN

Minn. Stat. § 216B.16, subd. 3(b)(3) requires that the proponent of interim rates propose no change in the existing rate design.⁶ The Commission finds that Xcel has complied with the no-rate-design-change requirement in that it has made no change in the existing rate design.⁷ The Commission will therefore approve Xcel's proposed interim rate design.

VI. EFFECTIVE DATE OF THE INTERIM RATE INCREASE

Xcel proposed that the interim rate increase go into effect on January 1, 2006.

Minnesota Statutes § 216B.16, subd. 3, provides for interim rates to take effect within 60 days of the initial filing, provided that filing is substantially complete. In this case, Xcel filed its rate case on November 2, 2005 and the Commission has found that filing substantially complete and accepted it in an Order issued contemporaneously with this Order.⁸

The date requested by the Company for the interim rates to become effective, January 1, 2006, is within 60 days of November 2, 2005, the date Xcel filed its substantially complete application. The interim rates will go into effect, therefore, on January 1, 2006, as requested by the Company.

ORDER

1. The Commission hereby authorizes Xcel to collect an annual revenue requirement of \$2,229,876,000, which includes an interim rate increase of \$147,318,000, effective January 1, 2006, with the following clarifications:
 - a. the Company's modified allocation methodology for interim rates is accepted based on a finding of exigent circumstances as discussed in the text of this Order;

⁶ The process of "rate design" involves setting the price of services for different classes of customers to enable a regulated utility to recover its operating costs and pay a fair return to investors.

⁷ To collect the interim revenue deficiency, Xcel will apply an interim rate adjustment of 7.25 percent to base rate components of customers' bills exclusive of rate riders (see Schedule 1 under the Interim Tariff Sheets tab in Volume 1 of Xcel's rate case filing). The interim rate increase of 7.25 percent will produce \$147,318,000 in additional annual revenues for Xcel.

⁸ See ORDER ACCEPTING FILING AND SUSPENDING RATES (December 30, 2005), this docket.

- b. the Company's proposed lower cost of equity for interim rates instead of the cost of equity awarded in the 1992 electric rate is accepted based on a finding of exigent circumstances as discussed in the text of this Order; and
 - c. the Company's proposed inclusion of MISO Schedule 16 and 17 costs as a test year cost for interim rates is accepted based on a finding of exigent circumstances as discussed in the text of this Order.
 - d. the Company's interim rate increase, recalculated to include the MISO Schedule 16 and 17 costs, is \$147,318,000.
- 2. Xcel shall work with the Executive Secretary to develop a notice explaining its interim rate change and shall secure the Executive Secretary's approval of the notice.
 - 3. Xcel shall file with the Commission, and serve on the Department, the approved customer notice, along with interim rate tariff sheets and supporting documentation reflecting the decisions made in this Order.
 - 4. For each customer, Xcel shall include the approved customer notice with the first bill reflecting the interim rates. The Company shall certify to the Commission when this task has been completed.
 - 5. Xcel shall keep such records of sales and collections under the interim rates as would be necessary to compute a potential refund.
 - 6. When the Commission approves permanent rates to replace these interim rates, if the permanent rates are less than the interim rates, Xcel shall refund the excess amount collected under the interim schedule. Any refund shall be made within 120 days of the effective date of the Commission's final order in a manner approved by the Commission.
 - 7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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